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SUBJECT: AER LINGUS CEO PRESSES FOR BILATERAL OPEN SKIES

REF: A. YOUNG-BYERLY E-MAIL OF NOVEMBER 20  
[1](#)B. DUBLIN 1189 AND PREVIOUS

[1](#)1. (SBU) Summary: In a November 21 discussion with the Ambassador, Aer Lingus CEO Dermot Mannion recommended bilateral talks to establish U.S.-Ireland Open Skies, with a view to providing Aer Lingus additional access to the U.S. market. Mannion said that he and the Irish Government doubted that the EU Transport Council would approve the draft U.S.-EU air services agreement in December, and he suggested implementing the U.S.-Ireland annex to the U.S.-EU agreement as a stand-alone arrangement, inclusive of a transition period leading to Open Skies. The Ambassador replied, however, that the USG had no interest in pursuing bilateral aviation talks with Ireland, as the U.S.-EU negotiations remained the USG's preferred mechanism to deliver Open Skies with EU Member States. Mannion reiterated the Irish commitment to Open Skies, noting the inefficiencies foisted on Aer Lingus by restrictions in the current U.S.-Irish bilateral agreement. He also observed that Boeing remained in the running to sell new long-haul aircraft to Aer Lingus, and he expressed confidence that the carrier had repulsed Ryanair's recent takeover bid, at least for the moment. End summary.

Mannion's Pitch for Bilateral Open Skies  
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[1](#)2. (SBU) In a November 21 meeting with the Ambassador, Aer Lingus CEO Dermot Mannion suggested implementing the U.S.-Ireland annex to the draft U.S.-EU air services agreement as a stand-alone arrangement. This approach, he believed, would give Aer Lingus more access to the U.S. market regardless of the status of the U.S.-EU negotiations. (The existing U.S.-Ireland aviation agreement gives Irish carriers access to four U.S. cities. The annex would, by 2008, phase in additional U.S. destinations for Irish carriers, while phasing out the Shannon Stop requirement, whereby U.S. and Irish carriers must provide a direct flight to Shannon for every direct flight to Dublin.) Mannion noted the Irish Government's expectation that the December 12 EU Transport Council meeting would not approve the draft U.S.-EU agreement without a U.S. Department of Transportation final rule on foreign investment in U.S. carriers. He added that Transport Minister Martin Cullen therefore would seek "a wink and a nod" from EU Commission officials that they would not block bilateral talks to establish Open Skies. (Per ref A, Prime Minister Bertie Ahern cited the possibility of enhancing the bilateral agreement in a November 16 statement.) Mannion was confident that the Commission would provide this assurance, and he predicted that the Irish Department of Transport would soon contact the Embassy on bilateral possibilities.

¶3. (SBU) The Ambassador replied that the USG had no interest in pursuing bilateral aviation talks with Ireland. He highlighted the USG view that the U.S.-EU negotiations remained the preferred mechanism to deliver Open Skies with EU Member States. The Ambassador added that proposals for a side deal with Ireland would be inconsistent with the U.S.-EU effort, and he expressed regret that this view would not be good news for Aer Lingus. "Extracting the Irish part of the U.S.-EU negotiations could destabilize the whole," he explained. He stressed, however, that Ireland could play a supportive role in the USG's continuing push for a U.S.-EU agreement.

¶4. (SBU) Mannion thanked the Ambassador for his comments, noting that the Irish Government, particularly Prime Minister Ahern, remained committed to Open Skies, notwithstanding continued, though diminished opposition from the Shannon Lobby.

Mannion pointed out that Aer Lingus would maintain Shannon service at current levels in an Open Skies situation, including round-year service to New York, Boston, and Chicago. He expected, however, that U.S. carriers would reduce Shannon service with Open Skies, likely providing one direct flight to Shannon for every four direct flights to Dublin. (Under the terms of the U.S.-Ireland annex to the draft U.S.-EU agreement, U.S. carriers would transition to one flight to Shannon for every three flights to Dublin.) Mannion added that Aer Lingus would seek USG permission for new service to San Francisco, Washington Dulles, and Orlando if a transition arrangement could be implemented under the terms of the annex. He added that the Shannon Stop foisted frustrating inefficiencies on Aer Lingus and was responsible for the termination of the carrier's previous service to Washington-Baltimore.

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#### Boeing Still in the Running for Aer Lingus Planes -----

¶5. (SBU) Aer Lingus was preparing to send out a Request For Purchase (RFP, or commercial tender) on November 22 to Boeing and Airbus to fill the carrier's needs for new long-haul aircraft, said Mannion. He observed that the time frame for decisions on new aircraft was very short, as the euro 400 million generated in Aer Lingus' September stock flotation "was burning a hole in his pocket." He also commented that Boeing had helped its case with recent notification that 787s could be delivered earlier than 2012, as originally indicated. Mannion noted his familiarity with Boeing representatives and aircraft during his tenure with Emirates. He added that the final package of new aircraft would include a mix of purchased and leased models.

#### Ryanair Defeated -- For Now -----

¶6. (SBU) Mannion observed that Aer Lingus had fended off Ryanair's takeover bid for now, especially with the November 21 statement by Ryanair CEO Michael O'Leary that Ryanair would not raise its bid price of euro 2.80 (compared to Aer Lingus's IPO price of euro 2.20, per ref B). Mannion also predicted that Aer Lingus employees, who together hold roughly a 15 percent stake in the carrier, would vote overwhelmingly on November 22 to reject the Ryanair bid. Mannion said that competition between Aer Lingus and Ryanair was good for Irish travelers, and he described his challenge as retaining shareholder confidence by raising Aer Lingus' stock price above the euro 2.80 threshold set by Ryanair. He noted that he would not be surprised to see a renewed takeover bid from Ryanair in 2007, or at least an onslaught of new Ryanair service with which Aer Lingus would have to compete.

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